

Advance Indexed Moderate Portfolio

Portfolio performance to quarter ended 31 December 2023

Portfolio details

Investment Objective

To deliver a return in line with the benchmark, before fees, over a rolling four year period.

Investment Strategy

The portfolio has exposure to a mix of Defensive assets (around 50%) such as Cash and Fixed Interest and Growth assets (around 50%) such as Shares and Listed Property securities. The portfolio's exposure to these asset classes will be obtained primarily by investing directly into Index Funds or Exchange Traded Funds.

	1 Mth (%)	3 Mth (%)	6 Mth (%)	YTD (%)	1 Yr (%)	3 Yrs p.a. (%)	5 Yrs p.a. (%)	Since Inception p.a. (%)*
Advance Indexed Moderate Portfolio	4.2	6.3	5.1	10.0	10.0	3.3	5.5	4.8
Advance Indexed Moderate Benchmark	4.2	6.2	5.3	10.3	10.3	3.5	5.7	5.1
Excess return	0.0	0.1	-0.2	-0.3	-0.3	-0.2	-0.2	-0.3

* Performance since 31 July 2015.

Actual Asset Allocation



- Australian Equities
- International Equities
- Property
- Australian Fixed Income
- Global Fixed Income
- Cash

May not sum to 100.0% due to rounding.

Market Commentary

Over the December quarter, the Advance Indexed Moderate portfolio returned 6.3% outperforming its composite benchmark by 0.1%.

During the quarter, several economic indicators have shown that growth is remaining positive despite the rise in interest rates to this point. The latest NAB Business Survey results continue to show resilience in business conditions, although there was some easing evident in the survey particularly in the Mining, Transportation, Utilities, and Construction sectors. Meanwhile, house prices have continued to rise, increasing 1.5% in Q4 and a total of 8.1% over the year. This growth has been supported by a tight labour market, with unemployment remaining low at 3.9% in November. Population growth and consumer resilience have also contributed to this growth, although there are signs of slowing due to the delayed impact of high interest rates. Meanwhile, inflation has continued to moderate in Australia to 4.1% over the calendar year 2023, a trend which has been mirrored in much of the developed world.

Australian Shares delivered a strong performance over the December quarter, with the S&P/ASX 300 Accumulation Index returning 8.4%. This performance can be attributed to market expectations adjusting to reflect the potential for lower interest rates in 2024 and a soft landing for the US economy. These shifting market dynamics was also beneficial for Small-Cap stocks, with the ASX Small Ordinaries Index gaining 8.5% over the period. The Australian REITs sector was the best performing, returning 16.5% for the period, followed by Health Care (13.3%) and Materials (13.2%). The Mercer Indexed Australian Shares Fund returned 8.3% over the quarter.

Global Equities performed strongly over this last quarter for 2023. The MSCI World ex-Australia Index returned 9.2% in hedged terms and 5.3% in unhedged AUD terms. Positive market sentiment was boosted by the rapid repricing of US interest rate cuts combined with softer inflation data from around the world. Real Estate (10.6%) and Industrials (7.7%) sectors had positive returns over the December quarter, with Information Technology (11.2%) stocks continuing to lead the way as investor appetite for interest rate-sensitive assets increased on the back of declining bond yields. Emerging Markets underperformed relative to Developed Markets, returning 2.0% for the period with China continuing to drag on performance. Mixed economic data from the region undermined investor confidence around a potential economic recovery as the impact from stimulus measures remained subdued. The Mercer Indexed International Shares Fund and the iShares Hedged International Equity Index Fund returned 5.3% and 9.3% respectively over the quarter.

Domestic Listed Property (S&P/ASX 300 A-REIT Accumulation Index) delivered a 16.5% uplift over the December quarter, while Global REITs (FTSE EPRA/NAREIT Developed, in AUD hedged terms) rose by 13.0%. Positive returns for both indices were primarily driven by growing expectations of softer monetary policy settings and interest rate cuts in 2024. These factors are seen as beneficial for property valuations and underlying earnings. The Mercer Indexed Australian Listed Property Fund and iShares Global Listed Property Index Fund (Hedged) returned 16.5% and 12.9% respectively over the quarter.

Global Sovereign Bond performance was mostly positive over the December quarter. After a rough start in the quarter, where the US 10-year bond yields peaked at ~5.0% mark in October, yields declined sharply from early November. A combination of softer inflation and economic data fed through to a distinct change in tone from the US Fed, leading to a downswing in market expectations for interest rate cuts in the upcoming year.

Credit spreads widened in early October due to risk-off sentiment on the back of elevated government bond yields and global uncertainty in the context of an emerging Middle East conflict. However, spreads tightened later in the quarter, as market participants shifted expectations towards a soft-landing scenario for the US economy. Higher demand and lower levels of issuance for higher yielding investment-grade bonds was also supportive.

Domestically, bond yields across maturities declined in line with the global bond markets. Consequently, the Bloomberg Ausbond Treasury Index gained 4.0%. The domestic credit market, as tracked by the Bloomberg Ausbond Credit Index, also experienced gains of 3.2% over the quarter. The Mercer Indexed Australian Fixed Interest Fund and the Mercer Indexed International Fixed Interest Fund returned 3.7% and 5.4% respectively.

Changes over the quarter

The Advance Indexed Moderate portfolio remains well positioned relative to its long-term objectives and did not require any changes to the strategic asset allocation or rebalancing over the period.

Outlook

Australian economic growth has proven resilient in recent quarters with several supporting factors. Households spending excess savings, population growth via immigration, a significant proportion of mortgages on (low) fixed rates and government expenditure have all been complementary. However, we expect growth to moderate as these stimuli diminish and the impact of higher interest rates flows through. Further, whilst inflation is expected to ease, the pace of decline is unlikely to be at the rate in other developed economies due to residential rental market pressures. We note that risks point towards a sharper slowdown in economic activity compared to expectations. Therefore, market pricing for two interest rate cuts in 2024 may prove to be fewer, and potentially slower, than what will ultimately occur.

Globally, we anticipate resilient growth, although it may vary across regions. Developed economies are expected to experience a moderation in economic performance due to tighter financial conditions. On the other hand, China is expected to see stronger growth driven by supportive fiscal, monetary and regulatory policies, as well as a turnaround in the manufacturing inventory cycle and a potential stabilisation in the housing sector. Other emerging economies are also expected to benefit from the current easing cycle in their central bank monetary policy settings.

In terms of asset class perspectives, we maintain a cautious view on developed markets due to high valuations and an optimistic earnings outlook. We hold a favourable view on emerging markets, which offer attractive valuations and more promising economic prospects. Domestically, considering the relative risks associated with interest rate expectations, we find Australian sovereign bonds attractive, despite the persisting risks posed by volatility in global sovereign bond markets.

Underlying Fund Returns

	1 Mth (%)	3 Mth (%)	1 Yr (%)	3 Yrs p.a. (%)	5 Yrs p.a. (%)
Australian Equities					
Mercer Indexed Australian Shares Fund	7.2	8.3	12.0	8.8	10.1
International Equities					
Mercer Indexed International Shares Fund	1.8	5.3	23.5	11.9	13.7
iShares Hedged International Equity Index Fund	3.9	9.3	21.9	7.5	11.7
Property and Infrastructure					
Mercer Indexed Australian Listed Property Fund	11.3	16.5	16.6	5.7	6.1
iShares Global Listed Property Index Fund (Hedged Class S Units)	8.2	12.9	8.1	-	-
Australian Fixed Interest					
Mercer Indexed Australian Fixed Interest Fund	2.7	3.7	5.0	-2.8	0.5
Global Fixed Interest					
Mercer Indexed International Fixed Interest Fund	3.0	5.4	5.1	-3.2	0.4
Cash					
Advance Cash Multi-Blend Fund	0.4	1.1	4.1	1.8	1.5
Platform Cash	0.3	0.9	-	-	-

Important Notices

This document is issued by Mercer Investments (Australia) Limited ABN 66 008 612 397 AFSL 244385 (MIAL). MIAL is the distributor of this document. MIAL is a wholly owned subsidiary of Mercer (Australia) Pty Ltd ABN 32 005 315 917 (Mercer Australia). References to Mercer shall be construed to include Mercer LLC and/or its associated companies.

'MERCER' is a registered trade-mark of Mercer Australia.

This document contains confidential and proprietary information of Mercer and is intended for the exclusive use of the parties to whom it was provided by Mercer. Its content may not be modified, sold or otherwise provided, in whole or in part, to any other person or entity, without Mercer's prior written permission.

The findings, ratings and/or opinions expressed herein are the intellectual property of Mercer and are subject to change without notice. They are not intended to convey any guarantees as to the future performance of the Fund, asset classes or capital markets discussed.

Information contained herein has been obtained from a range of third-party sources, including underlying investment managers. While the information is believed to be reliable, Mercer has not sought to verify it independently. As such, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability (including for indirect, consequential, or incidental damages), for any error, omission or inaccuracy in the data supplied by any third party.

Advance Indexed Portfolios are available through selected IDPS platforms. Please contact your adviser to find out what platforms this is available on.

Advance Asset Management Limited ABN 98 002 538 329 AFSL 240902 (AAML) is the responsible entity and issuer of interests in some of the underlying funds of the Advance Indexed Portfolios, namely Mercer Indexed Australian Shares Fund, Mercer Indexed International Shares Fund (unhedged), BlackRock Indexed Hedged International Equity Fund, Mercer Indexed Australian Fixed Interest Fund, Mercer Indexed International Fixed Interest Fund, Mercer Indexed Australian Listed Property Fund, Blackrock Global Listed Property Index Fund (hedged) and Advance Cash Multi-Blend Fund (collectively the 'AAML Funds').

AAML is a wholly owned subsidiary of Mercer Australia, which is part of the Mercer global group of companies. Investors should be aware that the value of an investment in any AAML Fund may rise and fall from time to time and that neither AAML nor Mercer guarantees the investment performance, earnings or return of capital invested in any AAML Funds. Past performance does not guarantee future results.

If you are investing in or considering an investment in any AAML Fund, you should note that the information contained in this document is general in nature only, and does not constitute an offer or a solicitation of an offer to buy or sell securities, commodities and/or any other financial instruments or product. It does not take into account your personal needs and circumstances.

Before deciding whether to acquire, continue to hold or dispose of an investment, Investors should consider seeking independent advice from a professional financial adviser and read the relevant disclosure documents. Investors should refer to the Product Disclosure Statement (PDS) and Target Market Determination (TMD) available from your financial adviser, or the relevant IDPS platform, before making a decision about the product and consider seeking independent financial advice.

The Financial Services Guide (FSG) for AAML can be obtained via [mercer.com.au/mercerfunds](https://www.mercer.com.au/mercerfunds). Conditions, fees and charges apply to AAML Fund/s and may change from time to time.

Where AAML has appointed third party manager(s) as the investment manager of the Fund, the relevant investment manager has consented to the statements pertaining to it in this document, in the form and context in which they appear and has not withdrawn its consent as at the date this document was published.

© Copyright 2023 Mercer Investments (Australia) Limited. All rights reserved.